

Pinecrest Medical Care Facility

**Combined Financial Report
with Additional Information
December 31, 2008**

Pinecrest Medical Care Facility

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Independent Auditor's Report

To the Department of Human
Services Board
Pinecrest Medical Care Facility

We have audited the accompanying combined balance sheet of Pinecrest Medical Care Facility (the "Facility") and related divisions (owned and operated jointly by Delta, Dickinson, and Menominee Counties, Michigan) as of December 31, 2008 and 2007 and the related combined statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Pinecrest Medical Care Facility at December 31, 2008 and 2007 and the combined results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying combined financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic combined financial statements.

Plante & Moran, PLLC

February 16, 2009

Pinecrest Medical Care Facility

Combined Balance Sheet

	December 31, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,284,526	\$ 1,142,988
Resident accounts receivable (Note 3)	1,238,121	1,508,100
Other current assets	154,751	121,025
Total current assets	2,677,398	2,772,113
Assets Limited as to Use (Note 2)	3,787,548	3,940,677
Property and Equipment - Net (Note 4)	13,984,760	13,836,082
Total assets	\$ 20,449,706	\$ 20,548,872
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 300,306	\$ 242,642
Construction payable	-	126,413
Accrued liabilities and other:		
Accrued compensation and related liabilities	571,297	503,296
Accrued compensated absences	598,132	557,356
Other accrued liabilities	95,363	110,634
Total current liabilities	1,565,098	1,540,341
Net Assets		
Invested in capital assets	13,984,760	13,836,082
Unrestricted	4,899,848	5,172,449
Total net assets	18,884,608	19,008,531
Total liabilities and net assets	\$ 20,449,706	\$ 20,548,872

Pinecrest Medical Care Facility

Combined Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2008	2007
Operating Revenue		
Net service revenue	\$ 12,552,983	\$ 12,590,781
Quality assurance supplement	1,510,118	1,474,083
Other operating revenue	109,073	248,713
Total operating revenue	14,172,174	14,313,577
Operating Expenses		
Salaries	8,420,063	8,097,900
Other expenses	6,125,496	6,087,941
Total operating expenses	14,545,559	14,185,841
Operating (Loss) Income	(373,385)	127,736
Other Income	249,462	324,231
(Decrease) Increase in Net Assets	(123,923)	451,967
Net Assets - Beginning of year	19,008,531	18,556,564
Net Assets - End of year	\$ 18,884,608	\$ 19,008,531

Pinecrest Medical Care Facility

Combined Statement of Cash Flows

	Year Ended	
	December 31, 2008	December 31, 2007
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 12,792,960	\$ 12,697,234
Other operating receipts	109,073	248,713
Cash received from quality assurance supplement	1,510,118	1,474,083
Cash paid to employees and suppliers	(12,324,268)	(12,297,258)
Cash paid for provider tax	(999,264)	(953,440)
Net cash provided by operating activities	1,088,619	1,169,332
Cash Flows from Noncapital Financing Activities -		
Contributions received	36,805	27,314
Cash Flows from Investing Activities		
Rental income	54,280	55,500
Interest received	158,380	241,417
Proceeds from sale of investments in assets limited as to use	250,779	757,460
Purchase of investments in assets limited as to use	(249,388)	(230,000)
Net cash provided by investing activities	214,051	824,377
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	(1,349,675)	(1,055,563)
Net (Decrease) Increase in Cash and Cash Equivalents	(10,200)	965,460
Cash and Cash Equivalents - Beginning of year	3,307,583	2,342,123
Cash and Cash Equivalents - End of year	\$ 3,297,383	\$ 3,307,583
Balance Sheet Classification of Cash		
Current assets	\$ 1,284,526	\$ 1,142,988
Assets limited as to use	2,012,857	2,164,595
Total cash	\$ 3,297,383	\$ 3,307,583

Pinecrest Medical Care Facility

Combined Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2008	December 31, 2007
Reconciliation of operating (loss) income to net cash from operating activities:		
Operating (loss) income	\$ (373,385)	\$ 127,736
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	1,074,584	1,014,946
Bad debts	106,766	46,483
Change in assets and liabilities:		
Decrease in resident accounts receivable	163,213	59,970
Increase in other current assets	(33,726)	(1,872)
Increase (decrease) in accounts payable	57,664	(168,869)
Increase in other accrued expenses	93,503	90,938
Net cash provided by operating activities	<u>\$ 1,088,619</u>	<u>\$ 1,169,332</u>

At December 31, 2008 and 2007, property and equipment additions totaling \$0 and \$126,413, respectively, were included in a construction payable.

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies

Pinecrest Medical Care Facility (the "Facility") is a 160-bed, long-term medical care facility owned and operated jointly by Delta, Dickinson, and Menominee Counties. The Facility is governed by a nine-member Department of Human Services (DHS) board. This board is made up of six members appointed by participating counties (two each) and three members appointed by the governor of Michigan (one to each county). This board also oversees the operations of Whispering Pines and Powers Activity Center. Whispering Pines operates five residential care facilities for developmentally disabled adults. Whispering Pines also has a contract with an outside provider to provide community-supported living arrangement programs that provide housekeeping, personal care services, and transportation to developmentally disabled adults and senior citizens living on their own. Powers Activity Center is an outpatient mental health facility. As required by accounting principles generally accepted in the United States of America, these combined financial statements present Pinecrest Medical Care Facility and its divisions. The individual divisions discussed above are included because of the significance of their operational or financial relationships with Pinecrest Medical Care Facility and the oversight responsibilities of the DHS board.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Facility's financial activities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents - The Facility considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note I - Nature of Business and Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use primarily include cash and cash equivalents and investments set aside by the DHS board for future capital improvements, funding of combined time off, and managed care contracting. Investments are recorded at their fair market values. The board retains control and may, at its discretion, subsequently use such assets for other purposes.

Property and Equipment - All property and equipment purchases are recorded at historical cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is charged as an expense against operations on a straight-line basis.

Compensated Absences - Employees earn benefit days under the Facility's combined time-off policy. The value of the combined time off is charged to operations when earned. Unused benefits are recorded as a current liability in the combined financial statements.

Resident Funds - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents and are included as an asset and a liability within the financial statements.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Approximately 85 percent of the revenue from patient services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Gross charges as adjusted for contractual allowances are reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a cost reimbursement methodology.

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Quality Assurance Program - The Facility's Medicaid revenue has been partially funded by a program called quality assurance supplement (QAS). During the years ended December 31, 2008 and 2007, the Facility received Medicaid revenues related to QAS totaling \$1,510,118 and \$1,474,083, respectively.

During the years ended December 31, 2008 and 2007, the Facility was assessed a provider tax totaling \$999,264 and \$953,440, respectively. During the years ended December 31, 2008 and 2007, the State billed for the tax on a monthly basis.

Operating Revenues and Expenses - The Facility's combined statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Facility's principal activity. Nonexchange revenues, grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility has designated three banks and one credit union for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Facility's deposits and investment policies are in accordance with statutory authority.

The Facility's cash and assets limited as to use, including investments that are subject to several types of risk, are examined in more detail below.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank or credit union failure, the Facility's deposits may not be returned to it. The Facility does not have a deposit policy for custodial credit risk. The Facility had approximately \$2,179,000 of bank and credit union deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized as of December 31, 2008. The Facility believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance and National Credit Union Share insurance, it is impractical to insure all deposits. As a result, the Facility evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Facility's investment policy does not restrict investment maturities.

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 2 - Deposits and Investments (Continued)

As of December 31, 2008, the Facility had the following cash and assets limited as to use maturities:

	Fair Market Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Cash and cash equivalents	\$ 1,449,548	\$ 1,449,548	\$ -	\$ -	\$ -
Certificates of deposit	563,309	563,309	-	-	-
Total cash and cash equivalents	2,012,857	2,012,857	-	-	-
Government agency securities	551,077	100,905	100,063	200,062	150,047
Government securities	1,223,614	176,607	835,580	211,427	-
Total	<u>\$ 3,787,548</u>	<u>\$ 2,290,369</u>	<u>\$ 935,643</u>	<u>\$ 411,489</u>	<u>\$ 150,047</u>

As of December 31, 2007, the Facility had the following cash and assets limited as to use maturities:

	Fair Market Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Cash and cash equivalents	\$ 1,648,946	\$ 1,648,946	\$ -	\$ -	\$ -
Certificates of deposit	515,649	515,649	-	-	-
Total cash and cash equivalents	2,164,595	2,164,595	-	-	-
Government securities	1,697,331	339,702	982,312	375,317	-
Mutual funds	78,751	78,751	-	-	-
Total	<u>\$ 3,940,677</u>	<u>\$ 2,583,048</u>	<u>\$ 982,312</u>	<u>\$ 375,317</u>	<u>\$ -</u>

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2008	2007
Resident accounts receivable	\$ 1,293,121	\$ 1,563,100
Less allowance for uncollectible accounts	(55,000)	(55,000)
Net resident accounts receivable	<u>\$ 1,238,121</u>	<u>\$ 1,508,100</u>

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 3 - Resident Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2008	2007
Medicare	16	12
Medicaid	58	53
Other payors	26	35
Total	100	100

Note 4 - Property and Equipment

The cost of property and equipment and related depreciable lives for December 31, 2008 are summarized below:

	2007	Additions	Transfers	Retirements	2008	Depreciable Life - Years
Land and land improvements	\$ 22,211	\$ -	\$ -	\$ -	\$ 22,211	N/A
Building	21,589,179	8,785	1,590,179	-	23,188,143	10-40
Equipment	2,917,668	226,378	56,275	(43,853)	3,156,468	4-20
Construction in progress	657,478	988,976	(1,646,454)	-	-	-
Total	25,186,536	1,224,139	-	(43,853)	26,366,822	
Less accumulated depreciation:						
Building	9,216,176	680,906	-	-	9,897,082	
Equipment	2,134,278	393,678	-	(42,976)	2,484,980	
Total	11,350,454	1,074,584	-	(42,976)	12,382,062	
Net carrying amount	\$ 13,836,082	\$ 149,555	\$ -	\$ (877)	\$ 13,984,760	

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 4 - Property and Equipment (Continued)

The cost of capital assets and related depreciable lives for December 31, 2007 are summarized below:

	2006	Additions	Transfers	Retirements	2007	Depreciable Life - Years
Land and land improvements	\$ 22,211	\$ -	\$ -	\$ -	\$ 22,211	N/A
Building	19,617,588	319,147	1,652,444	-	21,589,179	10-40
Equipment	2,800,266	79,138	38,433	(169)	2,917,668	4-20
Construction in progress	1,613,850	734,505	(1,690,877)	-	657,478	-
Total	24,053,915	1,132,790	-	(169)	25,186,536	
Less accumulated depreciation:						
Building	8,351,499	864,677	-	-	9,216,176	
Equipment	1,984,178	150,269	-	(169)	2,134,278	
Total	10,335,677	1,014,946	-	(169)	11,350,454	
Net carrying amount	\$ 13,718,238	\$ 117,844	\$ -	\$ -	\$ 13,836,082	

At the year ended December 31, 2007, construction contracts of approximately \$1,350,000 existed for a second greenhouse. The construction was completed May 2008.

Note 5 - Related Party Transactions

Maintenance of Effort - Maintenance of effort (M.O.E.) payments are county obligations to the State of Michigan. Every month the State bills the counties, at a per diem rate, for each Medicaid resident day at the Facility. The county is responsible to pay for 160 beds. The Facility had assumed the responsibility to pay for amounts relating to a 14-bed addition, although during the year ended December 31, 2008, the 14 beds were delicensed.

Note 6 - Defined Contribution Pension Plan

The Facility has two defined contribution plans, one for union employees and one for nonunion employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Facility contributes 2 percent of employees' gross earnings for participants of the bargaining units under a collective bargaining agreement and 9 percent of gross earnings for participants in the nonunion plan. The Facility's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 10 years of service. In accordance with these requirements, the Facility contributed approximately \$218,000 and \$172,000 during 2008 and 2007, respectively. There were no employee contributions to the plans in either year.

Pinecrest Medical Care Facility

Notes to Combined Financial Statements December 31, 2008 and 2007

Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions, as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims and employee medical benefit claims. The Facility is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known, outstanding, or pending claims at December 31, 2008 and 2007.

The Facility records workers' compensation claims as they are processed by the claims administrator. The Facility has also purchased stop-loss insurance for claims that exceed \$275,000. Changes in the estimated liability for the years ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Estimated liability - Beginning of year	\$ 100,832	\$ 124,170
Estimated claims incurred, including changes in estimates	46,513	49,749
Claim payments	<u>(57,993)</u>	<u>(73,087)</u>
Estimated liability - End of year	<u>\$ 89,352</u>	<u>\$ 100,832</u>

Additional Information



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To the Department of Human Services Board
Pinecrest Medical Care Facility

We have audited the combined financial statements of Pinecrest Medical Care Facility as of December 31, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedules, as outlined in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic combined financial statements. The combining and combined information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Plante & Moran, PLLC

February 16, 2009

Pinecrest Medical Care Facility

Combining Balance Sheet December 31, 2008

	Pinecrest Medical Care Facility	Whispering Pines	Powers Activity Center	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 974,982	\$ 224,051	\$ 85,493	\$ 1,284,526
Resident accounts receivable	1,016,168	204,652	17,301	1,238,121
Other current assets	136,325	16,137	2,289	154,751
Total current assets	2,127,475	444,840	105,083	2,677,398
Assets Limited as to Use	2,889,003	330,395	568,150	3,787,548
Property and Equipment - Net	13,514,747	364,604	105,409	13,984,760
Total assets	<u>\$ 18,531,225</u>	<u>\$ 1,139,839</u>	<u>\$ 778,642</u>	<u>\$ 20,449,706</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 239,264	\$ 47,080	\$ 13,962	\$ 300,306
Accrued liabilities and other:				
Accrued compensation and related liabilities	516,900	49,889	4,508	571,297
Accrued compensated absences	561,718	36,414	-	598,132
Other accrued liabilities	95,363	-	-	95,363
Total current liabilities	1,413,245	133,383	18,470	1,565,098
Net Assets				
Invested in capital assets	13,514,747	364,604	105,409	13,984,760
Unrestricted	3,603,233	641,852	654,763	4,899,848
Total net assets	17,117,980	1,006,456	760,172	18,884,608
Total liabilities and net assets	<u>\$ 18,531,225</u>	<u>\$ 1,139,839</u>	<u>\$ 778,642</u>	<u>\$ 20,449,706</u>

Pinecrest Medical Care Facility

Combining Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2008

	Pinecrest Medical Care Facility	Whispering Pines	Powers Activity Center	Total
Operating Revenue				
Net service revenue	\$ 10,001,492	\$ 2,307,045	\$ 244,446	\$ 12,552,983
Quality assurance supplement	1,510,118	-	-	1,510,118
Other operating revenue	109,073	-	-	109,073
Total operating revenue	11,620,683	2,307,045	244,446	14,172,174
Operating Expenses				
Salaries	6,778,803	1,510,071	131,189	8,420,063
Other expenses	5,431,889	633,645	59,962	6,125,496
Total operating expenses	12,210,692	2,143,716	191,151	14,545,559
Operating (Loss) Income	(590,009)	163,329	53,295	(373,385)
Other Income	220,273	8,562	20,627	249,462
Transfer from (to) Parent	27,762	(27,762)	-	-
(Decrease) Increase in Net Assets	(341,974)	144,129	73,922	(123,923)
Net Assets - Beginning of year	17,459,954	862,327	686,250	19,008,531
Net Assets - End of year	<u>\$ 17,117,980</u>	<u>\$ 1,006,456</u>	<u>\$ 760,172</u>	<u>\$ 18,884,608</u>

Pinecrest Medical Care Facility

Combined Schedule of Net Service Revenue

	Year Ended December 31	
	2008	2007
Skilled nursing services:		
Daily room revenue:		
Medicaid	\$ 8,116,675	\$ 8,488,900
Medicare	637,875	583,625
Private pay and other	992,600	1,276,281
Total daily room revenue	9,747,150	10,348,806
Ancillary revenue:		
Pharmacy	151,012	138,574
Therapy services	1,028,860	933,234
Other ancillary services	214,496	161,658
Total ancillary revenue	1,394,368	1,233,466
Total skilled nursing services revenue	11,141,518	11,582,272
Revenue deductions:		
Provision for contractual discounts	(1,033,260)	(1,326,612)
Bad debt expense	(106,766)	(46,483)
Total revenue deductions	(1,140,026)	(1,373,095)
Net skilled nursing revenue	10,001,492	10,209,177
Whispering Pines service revenue	2,307,045	2,143,627
Powers Activity Center service revenue	244,446	237,977
Net service revenue	<u>\$ 12,552,983</u>	<u>\$ 12,590,781</u>

Pinecrest Medical Care Facility

Combined Schedule of Operating Expenses

	Year Ended December 31			
	2008			2007
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,666,941	\$ 1,666,941	\$ 1,620,512
Administration	655,888	474,938	1,130,826	1,261,008
Plant operations	353,571	305,106	658,677	613,020
Utilities	-	396,781	396,781	409,790
Laundry	186,617	38,803	225,420	225,577
Housekeeping	282,376	54,611	336,987	333,370
Dietary	555,522	421,330	976,852	963,025
Medical director	-	60,447	60,447	60,000
Diversional therapy	148,410	4,683	153,093	137,255
Other ancillary services	-	68,836	68,836	34,332
Therapy services	404,696	46,693	451,389	378,305
Pharmacy	-	144,345	144,345	140,627
Nursing	4,298,020	357,914	4,655,934	4,587,155
Adult day care - PAC	123,897	10,220	134,117	122,059
Other services	1,411,066	-	1,411,066	1,331,420
Provider tax	-	999,264	999,264	953,440
Depreciation and amortization	-	1,074,584	1,074,584	1,014,946
2008 totals	<u>\$ 8,420,063</u>	<u>\$ 6,125,496</u>	<u>\$ 14,545,559</u>	
2007 totals	<u>\$ 8,097,900</u>	<u>\$ 6,087,941</u>		<u>\$ 14,185,841</u>



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February 16, 2009

To the Department of Human Services Board
Pinecrest Medical Care Facility
Powers, Michigan 49874

We have audited the combined financial statements of Pinecrest Medical Care Facility (the "Facility") for the year ended December 31, 2008 and have issued our report thereon dated February 16, 2009. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

SECTION I - Communications Required Under SAS 112

SECTION II - Other Recommendations and Related Information

SECTION III - Communications Required Under SAS 114

Section I includes any deficiencies we observed in the Facility's accounting principles or internal controls that we believe are significant. Current auditing standards require us to formally communicate, annually, certain matters we note about the Facility's accounting policies and internal controls.

Section II presents recommendations related to internal controls, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Facility in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operating efficiency and effectiveness.

Section III includes information current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to those charged with governance of Pinecrest Medical Care Facility.

We would like to take this opportunity to thank the Facility's staff for the cooperation and courtesy extended to us during our audit.

This report is intended solely for the use of those charged with governance and management of Pinecrest Medical Care Facility and is not intended to be, and should not be, used by anyone other than these specified parties.

To the Department of Human Services Board 2
Pinecrest Medical Care Facility

February 16, 2009

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "J. Eric Conway". The signature is written in a cursive style with a large, stylized "J" and "C".

J. Eric Conway, CPA, FHFMA
Partner

SECTION I - Communications Required Under SAS 112

In planning and performing our audit of the combined financial statements of Pinecrest Medical Care Facility as of December 31, 2008 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiencies to be significant deficiencies in internal controls:

Reporting a Management's Discussion and Analysis

Governmental Accounting Standards Board requirements include the provision of a management's discussion and analysis with financial statements published for governmental units. The combined financial statements for Pinecrest Medical Care Facility do not include the required management's discussion and analysis.

Accounts Payable

During the audit, we noted the open invoice report (A/P listing) is only compared to the general ledger on an annual basis, rather than on a monthly basis. We recommend a reconciliation worksheet be prepared every month.

SECTION II - Other Recommendations and Related Information

The following recommendations are based on observations made during the course of our audit. Our hope is to provide the board of directors and management with relevant, value-added recommendations. Some of these recommendations may very well have been considered by the Facility in the past but are included for the sake of completeness:

Wage Rate Approval

We noted when an employee is not covered by the union contract; there is no on-going documentation of the current approved wage rate. We recommend a signed pay rate authorization form be maintained in each employee's personnel file each time there is a wage rate change.

Cash Disbursement Process

It was noted that checks are printed off, signed, and sent by the personnel clerk. We recommend the Facility segregate these duties in order to maintain sound internal control over the cash disbursement process. We also noted that the blank checks and signature stamp are kept in the safe, which is accessible by anyone in the business office throughout the day. It is important to keep these items locked up separately, with only specific individuals (preferably those whose signature is engraved on the stamp) having access to them as an additional control over cash disbursements.

Petty Cash

During the audit, we noted the petty cash reconciliations are not reviewed consistently on a monthly basis. Although petty cash is immaterial, we recommend the appropriate reviewer sign and date the petty cash reconciliation to verify approval as part of the monthly procedures to maintain sound internal control over the petty cash funds.

General Controls

In performing our audit, we noted additional controls the Facility can implement to improve its internal control environment. See the table below for the listing of these items:

What could go wrong	Control to address what could go wrong
Revenue is not valid or is recognized in incorrect period	Written revenue recognition policies exist and are followed
Revenue is recognized at incorrect amounts	Written charity care policy is followed
	Limited users can update applicable rates in system
Accounts receivable are not adjusted to net realizable value	Written valuation allowance policies exist and are followed
Incorrect recording of third-party settlements	Written identification, analysis, and recognition policies exist and are followed
Impairments are not recognized	Written impairment identification, analysis, and recognition policies exist and are followed

SECTION III - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 18, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the combined financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the combined financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the combined financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Pinecrest Medical Care Facility. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on November 12, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pinecrest Medical Care Facility are described in Note I of the combined financial statements. No other new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the combined financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the combined financial statements was the allowance for doubtful accounts.

Management's estimate of the allowance for doubtful accounts is based on estimated uncollectible accounts receivable outstanding at December 31, 2008. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that they are reasonable in relation to the combined financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, an audit entry was proposed to adjust estimated QAS revenue for an amount of approximately \$55,000.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combined financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated February 16, 2009.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's combined financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Client: **Pinecrest Medical Care Facility**

Y/E: **12/31/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income
KNOWN MISSTATEMENTS:									
AI	Recorded QAS revenue exceeds estimated			\$ 54,755			\$ (54,755)		\$ (54,755)
ESTIMATE ADJUSTMENTS:									
None									
IMPLIED ADJUSTMENTS:									
None									
		\$ -	\$ -	-	\$ -	\$ -	-	\$ -	-
Total		\$ -	\$ -	\$ 54,755	\$ -	\$ -	\$ (54,755)	\$ -	\$ (54,755)

We believe the unrecorded possible adjustments listed above are immaterial to the Facility's combined financial statements, both individually and in aggregate.

Gerald Betters, Administrator

Jerome Hubbard, Controller